

EXECUTIVE SUMMARY

Global State of FinTech Report 2018



MEDICI's Global State of FinTech Report 2018

Executive Summary

We at MEDICI have been tracking this industry on an ongoing basis across the world; speaking to banks, FIs, startups and technologists; listening and analysing; leading to deep insights across various segments. The MEDICI **Global State of FinTech Report** is an outcome of this exercise and the resultant insights.

The report discusses these trends in-depth. It also presents the MEDICI point of view on the forthcoming developments expected to take shape in 2018 and beyond in the FinTech sector.

The report brings into focus the uncertainties around specific topics, and the factors leading to these uncertainties. How these get resolved is likely to shape the future in some segments of FinTech.

This Executive Summary presents a snapshot of the main thoughts around selected themes from the report.

Key topics represented in the full report

- State of FinTech – The Growth Story
 - Overview
 - Challenges for Banks, Opportunities for FinTech
 - Tech Giants as the New Invaders
 - Evolving Bank-FinTech Narrative
- Payments – The Battleground for Market Dominance
- Remittance – The Disruption Continues
- Blockchain – Going Beyond Pilot?
- Lending – Cusp of a New Era
- InsurTech – Road to Real Innovation
- AI/ML – The Next Level
- Questions to ponder upon
- Regional Outlook
- Key Takeaways

MEDICI's Global State of FinTech 2018: Executive Summary

1. Evolving Bank-FinTech Narrative

From competition to collaboration to investment and acquisition to hybrid strategy

The relationship between banks and Fintech firms has evolved over a period of time from that of being competitors, to that of being collaborators. In 2018, we think banks will require a hybrid strategy that will be a combination of innovation programs and acquisitions. This will ensure that banks' entire gamut of needs and objectives are met - short term gains in terms of ROI; long term bets on specific technologies; the FinTech product roadmap being in line with the bank's own roadmap, etc.

2. Tech Invaders

Taking huge strides in FinServ

Large Tech firms have used their immense resources and rich customer data pools to go beyond payments and make forays into areas as diverse as lending, PFM, insurance etc. We see this trend strengthening in 2018.

3. AI/ML – Taking Things to the Next Level

China is doing some pioneering work in this area

AI-ML has started making real impact in a number of segments. In China, the government harnessing and combining the forces of the big Tech players and providing support to research efforts may see some further results. Any major improvements in 2018 in the underlying technologies is likely to take the use cases to the next level.

4. Lending - Second Biggest Blockbuster FinTech Segment After Payments

While there are similar trends across countries... regional nuances exists

The Lending segment has seen tremendous growth in 2017. The sector is highly fragmented, with vastly different geography-specific developments and trends. In 2018, in addition to the geography-dependent trends, there could be an increase in non-traditional lending models, with SME lending possibly emerging as a breakout segment.

5. Open APIs Leading to Truly Open Banking

PSD2 opening gates for collaborative innovation

Regulatory push and innovations from non-bank players will force banks to hand over control of customer data to the customers through truly open APIs in 2018. This might lead to an evolution of their business models in a few years.

6. Real Time Payments (RTP)

Powering banks in the battle for dominance

In 2018, the implementation of Real Time Payment Systems across the globe are expected to help banks regain some of the ground lost to new-age players in payments.

7. Remittances

Slowly moving towards real change

While a major breakthrough in this segment is not expected imminently, multiple efforts from various stakeholders will likely result in some efficiency gains in 2018. The need for change being accepted all round is the major development of the year gone by.

8. Reactive Restitution to Proactive Prevention Models

IoT driven InsurTech

In 2018, we expect IoT devices to lead to personalised solutions in the area of health insurance, and lead to a move from Reactive Restitution models to Proactive Prevention models.

9. The Blockchain: Going Beyond Pilot?

Looking for answers to the scalability problem

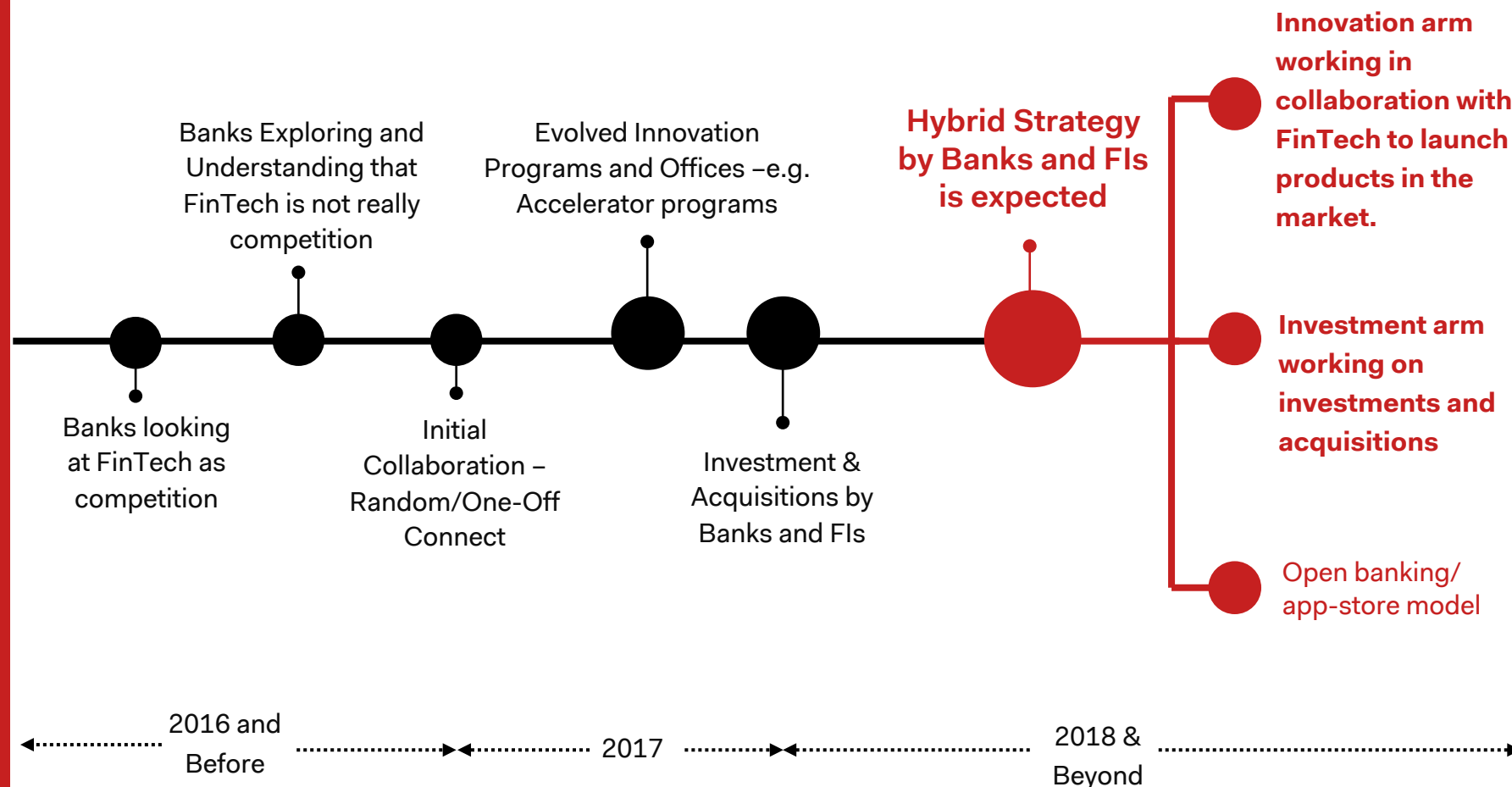
A few slow starts /struggles in blockchain based pilots in 2017 did not dampen the interest of the BFSI sector, which is trying out the technology in various areas. 2018 will be a big test for blockchain in both Finserv and non-financial areas. However, people see less regulated, non-financial areas like provenance and health records as more likely to emerge with live solutions in 2018.



Evolving Bank-FinTech Narrative

From Competition to Collaboration to Investment and Acquisition to Hybrid Strategy

The relationship between banks and Fintech firms has evolved over a period of time from that of being competitors, to that of being collaborators. In 2018, we think banks will require a hybrid strategy that will be a combination of innovation programs and acquisitions. This will ensure that banks' entire gamut of needs and objectives are met - short term gains in terms of ROI; long term bets on specific technologies; the FinTech product roadmap being in line with the bank's own roadmap, etc.





Tech Invaders

Taking Huge Strides in FinServ

Large Tech firms have used their immense resources and rich customer data pools to go beyond payments and make forays into areas as diverse as lending, PFM, insurance etc. We see this trend strengthening in 2018.



Financial Services Solutions by GAFAM-BAT								
	Google	amazon	facebook	Apple	Microsoft	Baidu 百度	Alibaba.com	Tencent 腾讯
Payments/Wallets	✓	✓	✓	✓	✓	✓	✓	✓
Digital Lending	✓	✓	✓	✗	✗	✓	✓	✓
Neobanks	✗	✗	✗	✗	✗	✓	✓	✓
Other Financial Services (insurance/investment)	✓	✓	✗	✗	✓	✓	✓	✓
Others	✓	✓	✓	✓	✓	✓	✓	✓

Note: GAFAM-BAT stands for Google, Apple, Facebook, Amazon, Microsoft, Baidu, Ant Financial and Tencent.

For more information, kindly download the full report [here](#).



AI/ML – Taking Things to the Next Level

China is doing some pioneering work in this area

AI-ML has started making real impact in a number of segments. In China, the government harnessing and combining the forces of the big Tech players and providing support to research efforts may see some further results. Any major improvements in 2018 in the underlying technologies is likely to take the use cases to the next level.

Note: AI/ML denotes Artificial Intelligence/Machine Learning

Key Impact Areas

Fraud Detection
Authentication
Risk Management
Virtual Assistants & Chatbots
Process Automation
KYC/AML
Capital Markets – Data Analysis,
Algorithmic Trading

Robo Advisory
Context Aware Marketing
Consumer Behaviour Analytics
Preventive Insurance
Compliance
Credit Decisioning
Loyalty and Reward
Document Digitisation

Factors Aiding China's Efforts

Emerging AI talent
BAT's huge customer data pool

Heavy research investments by tech giants

Government's vision and support

High level of tech adoption by customers

Expected Developments in 2018

1. Techniques like facial recognition, image recognition and NLP may improve rapidly, subject to focused efforts by some players, taking use cases to the next level.
2. Data inputs from IoT devices, in tandem with efforts on the AI/ML front, may have a major impact on some of the Key Impact Areas, subject to the cost of IoT devices becoming affordable.
3. Research efforts are likely to be witnessed from both private players as well as governments.



Lending - second biggest FinTech segment after payments

While there are similar trends across countries... regional nuances exists

The Lending segment has seen tremendous growth in 2017. The sector is highly fragmented, with vastly different geography-specific developments and trends. In 2018, in addition to the geography-dependent trends, there could be an increase in non-traditional lending models, with SME lending possibly emerging as a breakout segment.

Regional Developments

USA: P2P lending space has matured with leading lenders like Lending Club and Prosper struggling in loan origination. SME lending has picked up with Amazon, Paypal, Uber entering the fray, although with limited success.

Europe: P2P and business lending gaining traction with UK leading the growth charts. Payroll lending gaining ground, especially among the large migrant population.

China: Tech Giants like WeChat and Alibaba strengthening their grip on P2P and Business Lending. Fraud, Irregularities and Misconducts forcing regulatory crackdown on online lenders.

India: P2P lending gained enough traction to catch the regulator's attention. Clear guidelines announced, bringing clarity to players as well as investors.

Indonesia : Huge percentage growth in number of startups in P2P lending space within a short period, results in regulations being announced. Lending volumes yet to pick up.

Australia: Fast growth in number of P2P lenders. The schemes being run as investment schemes, so already being regulated.

Other markets: Other SEA markets like Philippines, Vietnam and Malaysia are still in nascent stages, but presence of startups in both P2P as well as SME lending.

Other Developments

Increasing regulatory scrutiny in most countries, as seen in China, India and Indonesia.

Tech giants are looking to disrupt this segment. However, initial success was witnessed only in China.

Lending was the highest VC funded segment (~18%) globally in 2017. The top two countries in terms of lending investment in 2017 were US (\$1.89 B, 47% of global investment in lending), and China (\$616.8 M, 15.5% of global investment in lending)

2018 Outlook

1. P2P lending appears to be slowing down. Expected to see various levels of growth in different geographies based on economic take-off and regulatory scrutiny.
2. SME/business lending appears to a breakout segment.
3. Can expect to see even more non-traditional models emerge. However, tighter norms around data privacy could slow down the process.



Open APIs Leading to Truly Open Banking

PSD2 Opening Gates for Collaborative Innovation

Regulatory push and innovations from non-bank players will force banks to hand over control of customer data to the customers through truly open APIs in 2018. This might lead to an evolution of their business models in a few years.

Note: PSD2 stands for Revised Payment Service Directive"

Non-banks pushing the boundaries with their APIs



Governance Ecosystem Driving Adoption of truly open APIs

MAS in Singapore leading the API bandwagon – documented API protocols.

UIDAI in India launched India Stack.

Payments UK, CMA and OBWG promoting wide-scale adoption of open APIs standards and frameworks.

CFPB's open-source data platform project Qu in US.

PSD2 Has mandated banks to open their APIs for licensed TPPs.

Illustrative list of banks active on the open API front



Private APIs



Partner APIs



Open/Public APIs



Open Banking

Open APIs

1. Shift to truly Open APIs driven by regulations, protocol standardisation and pressure from non-bank players
2. Consent moves from banks to customers
3. Banks may start to lose control over user experience and exclusive access to consumer data
4. Third party providers will be able to move customer money, not just get access to customer data, necessitating Web APIs
5. Bank Agnostic APIs may proliferate



Real Time Payments (RTP)

Powering Banks in the Battle for Dominance

In 2018, the implementation of Real Time Payment Systems across the globe are expected to help banks regain some of the ground lost to new-age players in payments.

Emergence of Real Time Payments

NPS in US

IMPS in India driving UPI

SEPA Instant Credit Transfer in Europe

NPP in Australia (early 2018)

New Instant Payment System in EU (Driven by Swift)

FinTech challengers in the payment space, i.e. Venmo and PayTM are faring well and making a serious dent in their respective markets.

venmo **paytm**

RTP implementation is driving an interesting duel in the respective countries.

New banking consortiums and entities like SEPA, NPCI, Early Warning, The Clearing House etc. are coming together and powering banks with necessary infrastructure and payment rails to strengthen their Payments offerings.





Remittances

Slowly moving towards real change

While a major breakthrough in this segment is not expected imminently, multiple efforts from various stakeholders will likely result in some efficiency gains in 2018. The need for change being accepted all round is the major development of the year gone by.

Stabilization of currencies and stronger economic growth in key send-regions (i.e. US, EU etc.)

→ Rebound in global P2P remittance flow after two consecutive years of dip (4.8% growth estimate in 2017)

Mobile money services by MNOs driving remittance growth in high cost geographies, e.g. Sub Saharan Africa

→ However, licensing challenges limit mobile money to inward remittances in most (~ 2/3rd) of the countries in this region.

SWIFT's launch of Global Payment Innovation in 2017

→ Bid to improve transparency in the process of making B2B cross border payments.

China and Russia building SWIFT's alternative payment infrastructures – i.e. CIPS and SPFS respectively.

→ However, further enhancements are needed to provide services at-par with the existing standards.

Future Outlook - 2018

- Increasing focus on B2B cross-border payments.
- Multi-currency wallets as the new wave.
- MAS leading DLT innovation in remittance, trade and security payments – i.e. Global trade connectivity network and Project Ubin
- SEPA's instant credit transfer could bring new dimensions to the intra EU remittances.
- SWIFT-Ripple competition could augur well for the community, as the recent enhancements may potentially solve some major problems associated with the traditional wire transfer system.
- If regulatory (send-licensing for mobile money services) as well as industry-wide (Regional interoperability of MNOs) initiatives take favourable shape in Sub-Saharan African region, the scope of mobile money in many key countries may expand to outward remittances in the coming years.



Reactive Restitution to Proactive Prevention Models

IoT driven InsurTech

In 2018, we expect IoT devices to lead to personalised solutions in the area of health insurance, and lead to a move from Reactive Restitution models to Proactive Prevention models.

Insurance 2.0

Newer Business
Models

Niche Positioning

Profiling and
Predictive Decisioning



2018 Outlook

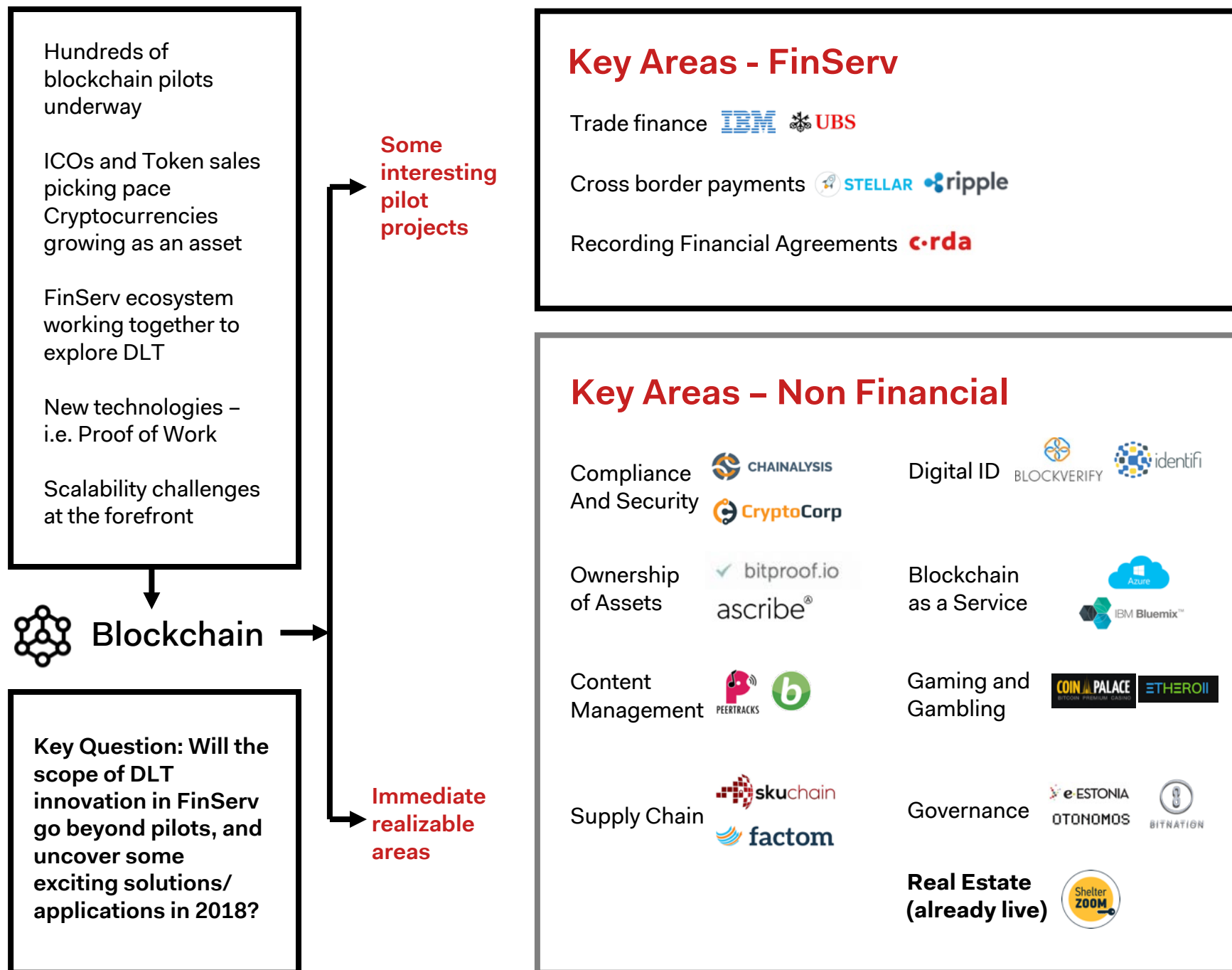
1. IoT innovation gaining traction in personal health
2. Preventive insurance models
3. Increasing focus on data security
4. On demand and micro insurance
5. Blockchain based applications
6. Increased AI and big data adoption to leverage the IoT potential



The Blockchain: Going beyond pilot?

Looking for Answers to the Scalability Problem

A few slow starts /struggles in blockchain based pilots in 2017 did not dampen the interest of the BFSI sector, which is trying out the technology in various areas. 2018 will be a big test for blockchain in both FinServ and non-financial areas. However, people see less regulated, non- financial areas like provenance and health records as more likely to emerge with live solutions in 2018.



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If you are a growing **FinTech startup**...MEDICI will provide you just the right tools, positioning with the perfect audience and contextual exposure in the ecosystem to amplify your company's message and showcase your product and proposition.



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Our focus is to help anyone in the Fintech ecosystem who wants to innovate at SCALE, and do so faster, smarter and cheaper through our exclusive membership programs, our advisory offerings, and the MEDICI media platform.



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